

Fiscal Note

Fiscal Services Division



HF 2461 – Irrevocable Burial Trusts (LSB 5874HV)

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Fiscal Note Version – New

Description

House File 2461 exempts the interest and earnings received from a burial trust fund from the State income tax. The change is effective retroactive to January 1, 2014 (tax year 2014).

Background

As provided in **Iowa Code chapter 523A**, a burial trust is an irrevocable trust fund established by a person with a financial institution for the purpose of funding the future purchase of cemetery merchandise, funeral merchandise, funeral services, or a combination thereof upon the death of the person named in the burial trust fund's records or a related purchase agreement. A burial trust fund does not include or imply the existence of any oral or written purchase agreement for cemetery merchandise, funeral merchandise, funeral services, or a combination thereof between the person and a seller.

While insurance-based versions of the irrevocable burial trust exist that are currently exempt from federal income tax, interest and investment earnings on the balance of the "grantor trust" version are taxable income under federal law, and therefore taxable income under state law.

Assumptions

- The Department of Revenue estimates that there is \$2.815 billion in irrevocable burial trust balances currently existing in Iowa.
- Of the \$2.815 billion, 33.3% (\$0.937 billion) is assumed to be grantor trust versions that are taxable under current federal and state law.
- The annual balance in grantor trusts is assumed to grow 7.0% per year through a combination of balance growth and growth in the number of accounts.
- Interest and investment income is assumed to equal 3.0% of the annual grantor trust balance total.
- Of the interest and investment earnings, 50.0% is assumed to be earned by taxpayers with insufficient income to pay Iowa income tax. Therefore, the exemption in this Bill does not provide an additional tax benefit to those taxpayers.
- The remaining 50.0% of interest and investment income is assumed to be earned by taxpayers with an average marginal State income tax rate of 6.0%.
- Individual income tax exemptions reduce State tax liability and in turn reduce the revenue yield realized by the local option income surtax for schools. The statewide average surtax rate is 3.5% of State income tax liability.

Fiscal Impact

The tax exemption for interest and investment income from irrevocable burial trusts is projected to reduce net General Fund revenue by the following amounts:

- FY 2015 = \$-0.8 million
- FY 2016 = \$-0.9 million
- FY 2017 = \$-1.0 million
- FY 2018 = \$-1.0 million
- FY 2019 = \$-1.1 million

The impact continues at a similar level in future fiscal years. The income tax exemption also reduces the revenue generated by the local option income surtax for schools by \$35,000 annually.

Sources

Iowa Department of Revenue
Iowa Insurance Division
Moody's Analytics
National Funeral Directors Association
Legislative Services Agency analysis

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
